

AR43

Third Annual Report **1974**



RENN INDUSTRIES INC.



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Directors

Kenneth P. Hayes
Osborne C. McKee
Thomas F. Tyson
Raymond J. Cupit
Albert W. Jedel
Merrill K. Morstad

Officers

Kenneth P. Hayes	Chairman of the Board
Thomas F. Tyson	President
George E. Scott	Secretary
Albert W. Jedel	Controller and Assistant Secretary
Henry A. Kurki	Treasurer

Office

3240 - 11 Street S.E.
Calgary, Alberta.

Registered Office

Suite 1700 - 777 Hornby Street
Vancouver, British Columbia.

Transfer Agent and Registrar

National Trust Company Ltd.
Vancouver, British Columbia.

Auditors

Arthur Andersen & Co., Chartered Accountants,
Calgary, Alberta.

Legal Counsel

Meredith & Co.
Vancouver, British Columbia.
Cox & Goss
Calgary, Alberta.

Bank

Treasury Branch of Alberta
Calgary, Alberta.

Operating Subsidiaries

Renn-Cupit Industries Ltd.
Renn Sales (Calgary) Ltd.
Renn Sales Ltd.
B.R. Steel Fabricators Ltd.
East Kootenay Steel Ltd.

RENN INDUSTRIES INC.*

and subsidiary companies

PRESIDENT'S REPORT TO SHAREHOLDERS

THE YEAR IN REVIEW

Immediately after the President of your Company took office in March, 1974, an aggressive profit improvement program was initiated. In terms of revenue expansion, priority attention was given to broadening our product and market base, and adding and promoting exceptional personnel to chart the course for the future. In terms of cost reduction, we applied persistent pressure for good management stewardship over the funds committed to our care, and in addition, began to phase out operations which were a drain on the Company's resources.

We are pleased to report that already the new program has generated remarkable results. Set out below are the principal areas of concentration, and some of the significant benefits derived to date.

1. ALLOCATING RESOURCES TO AREAS OF HIGH POTENTIAL

- Sales increased from \$8.8 million in 1973 (restated) to \$11.2 million in 1974 — an impressive climb of 26%. If suppliers had been able to meet the Company's demands for raw steel, components and finished equipment, over \$1 million in additional sales would have been enjoyed, chiefly in farm equipment and truck hoists and boxes.
- Operating income before non-recurring operations rose substantially from \$129,000 in 1973 to \$625,000 in 1974 — a fivefold increase. This was accomplished despite a shortage of working capital, and a considerable increase in interest costs on the Company's borrowings.
- Earnings per share of 26 cents in 1974, as opposed to a loss of 36 cents per share in 1973 (restated).
- East Kootenay Steel exceeded its target of sales revenue from servicing the coal mining industry by almost 100% in 1974, and because of stepped-up activities in coal mining in general, the future looks bright for many years. For that reason over \$200,000 of capital expenditures were made on equipment for that subsidiary in 1974.

2. IMPOSING A COMPANY-WIDE COST REDUCTION PROGRAM

A Spartan approach has been taken to all major classes of expenditures. Cost reductions aggregating over \$270,000 have been made, chiefly from closing down unnecessary offices, controlling legal, consulting, travel and other costs, and reducing the number of employees of the Company by about 10% without sacrificing efficiency or effectiveness.

3. INTRODUCING NEW REPORTING AND DISCLOSURE PROCEDURES

New accounting policies and procedures have been introduced which require the reporting of losses when they are first known, and allow income to be recognized only when it is realized. These new procedures, along with other provident measures, will improve the accuracy and timeliness of disclosure and ensure a conservative approach to reporting of financial results.

4. ABANDONING UNPROFITABLE ACTIVITIES

We stated in our Six Months' Report to the shareholders that the Feed Mill Construction Division of Renn-Cupit Industries was grossly unprofitable and was being closed down. We believe we have now plumbed the depths of this situation and have identified expected losses of approximately \$445,000, all of which are traceable to 1973 when there were ineffectual controls over contract quotations, cost accounting and progress billings. We have treated the expected losses as a non-recurring cost in 1973 because that is the year when they should have been recognized, and because it affords a more accurate comparative picture of the operating results from continuing operations in 1974.

B.R. Steel Fabricators had a large backlog of orders on hand at October 31, 1974, generated with the help of East Kootenay Steel. However, B.R. Steel is in the one-off, job shop type business, with all of the attendant difficulties of estimating contract prices, monitoring physical and financial progress during fabrication and erection, and unpredictability of flow of orders. These conditions, aggravated by a poorly equipped factory, have contributed to losses in the last two years, and hence, the Management have decided to phase out all of B.R. Steel's job shop activities in 1975, at an estimated loss of \$73,000. In keeping with our policy of reporting estimated losses when they are known, this has been provided for as a non-recurring cost in 1974.

* FORMERLY FOUR SEASONS MANUFACTURING LTD.

5. REALIGNING CAPITAL STRUCTURE

A long term loan of \$350,000 from the Industrial Development Bank at 13½% was approved in June, 1974, and the funds were received early in November. The proceeds were used to reduce the Company's working capital loan which carries an effective interest rate of over 20%.

In February, 1974, Cavendish Investing Ltd. purchased \$150,000 of common shares from the Treasury of the Company. Further discussions with venture capital companies are being held with a view to obtaining additional capital infusions.

The Alberta Export Agency made two short term working capital loans of approximately \$600,000 to two of the Company's Subsidiaries to stimulate exports to foreign markets. Both loans will have been repaid in early 1975. The interest rate on these loans was about 8% less than the rate on the working capital loan.

If additional financing is obtained on favourable terms, the Company's growth pattern can be sustained.

6. STRENGTHENING THE ORGANIZATION STRUCTURE

Starting from the top down, major changes were made in the Company's organization structure. Pursuant to a new policy of bringing broader business background and objectivity to Renn Industries, four new Directors were appointed, three of whom were appointed to the Company's Audit Committee because of their financial and general management experience. A new President and three new Divisional General Managers were appointed, an experienced Treasurer was added to the Head Office staff, and the legal counsel for the Company accepted the appointment to the position of Secretary.

In the next fiscal period, we plan on strengthening our personnel in the marketing and production functions to give our Subsidiaries greater product planning and manufacturing depth.

7. IMPLEMENTING NEW DISCIPLINES AND CONTROLS

New profit planning, capital appropriation and other long term planning procedures have been introduced, and fiscal controls have been tightened. Overall Corporate objectives have been defined, and within elastic guidelines, Divisional targets for sales growth, return on investment and productivity have been established. Divisional Managers are being held strictly accountable for results in accordance with these targets. As a result, a more disciplined approach to managing the Company's operations has become evident.

WHAT THE FUTURE HOLDS

The Company's name was changed in 1974 to promote cohesion and capitalize on the name Renn that has a reputation for product innovation and superiority. That in itself was an inevitable development to add to our momentum in the marketplace. On a planned basis, and within its financial capability, Renn Industries intends to emphasize manufacturing, de-emphasize wholesale distribution of non-captive products, broaden its geographic coverage, strengthen its product mix, and penetrate new markets.

Where Renn Industries conducts its business, chiefly in Canada and 10 U.S. States, it faces some economic uncertainty in 1975. In a short time frame, a recessionary climate has been added to galloping inflation, and while it is hitting specific industries more harshly, there could be a ripple effect on other industries. Even though uncontrollable world events, U.S. actions and the current crisis psychology may have an influence on our programs in the period ahead, the strong fiscal controls we have implemented will prove highly beneficial. We are comforted further by the fact that the diversity of our various enterprises will permit us to deal with the unpredictable economic conditions effectively.

T. F. TYSON,
President.

RENN INDUSTRIES INC.*

and subsidiary companies

CONSOLIDATED BALANCE SHEET

as at October 31, 1974 (\$ Thousands)

	1974	1973 (Restated)
ASSETS		
CURRENT ASSETS:		
Cash	\$	\$ 11
Accounts receivable (Note 8)	1,680	1,569
Inventory (Note 8)	1,582	1,279
Prepaid expenses and deposits	21	37
Total current assets	\$ 3,286	\$ 2,896
PROPERTY, PLANT AND EQUIPMENT		
(Notes 6, 8 and 10)	1,319	1,207
EXCESS OF COST OF INVESTMENTS IN SUBSIDIARIES OVER NET ASSETS AT DATES OF ACQUISITION		
	1,045	1,045
	<u>\$ 5,650</u>	<u>\$ 5,148</u>

On behalf of the Board:

K. P. HAYES, Director

T. F. TYSON, Director

The accompanying notes to the consolidated financial statements are an integral part of this statement.

FORMERLY FOUR SEASONS MANUFACTURING LTD.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973 (Restated)
CURRENT LIABILITIES:		
Bank indebtedness, secured	\$ 328	\$
Accounts payable and accrued charges (Note 7)	1,907	1,852
Debenture payable (Note 8)	438	733
Income taxes payable (Note 9)	47	4
Current portion of long-term debt (Note 10)	153	490
Total current liabilities	\$ 2,873	\$ 3,079
LONG-TERM DEBT, net of current portion (Note 10)	858	721
DEFERRED INCOME TAXES	27	8
SHAREHOLDERS' EQUITY	1,892	1,340
	<u>\$ 5,650</u>	<u>\$ 5,148</u>

RENN INDUSTRIES INC.*

and subsidiary companies

RESTATEMENT OF PREVIOUSLY REPORTED INCOME (LOSS) AND DEFICIT

	Year Ended October 31, 1973	14 Month Period Ended October 31, 1972
	(\$ Thousands)	
Net income (loss) as originally reported	\$ (47)	\$ 70
Restatements:		
<u>Retroactive Adjustments</u>		
1972 Finders fee re acquisition of business (i)		(25)
1973 Write-off of assets, to apply retroactively (ii)	87	(76)
<u>Correction of Prior Period Errors</u>		
Sales tax adjustments identified in 1974	(5)	(22)
Accrual of all expected losses on feed mill construction contracts	(444)	
	\$ (362)	\$ (123)
Loss as restated	\$ (409)	\$ (53)
	<u>As Originally Reported</u>	<u>Restate- ments</u>
		<u>As Restated</u>
<u>Deficit, October 31, 1972</u>	\$ 266	
1972 Loss restatements		\$ 123
To reverse charge to deficit for finders fee (i)		(25)
		<u>\$ 98</u>
		<u>\$ 364</u>
<u>Deficit, October 31, 1973</u>	\$ 363	
1972 Deficit restatements		\$ 98
1973 Loss restatements		362
To reverse charge to deficit for blueprints (iii)		(50)
To transfer mining deficit to share capital (iv)		(311)
		<u>\$ 99</u>
		<u>\$ 462</u>

FOOTNOTES:

- (i) Finders fee charged to deficit in 1972, adjusted to report as a charge to 1972 expense.
- (ii) Prior to 1972, the Company followed the accounting practice of expensing outlays on such items as jigs, dies and research and development in the years in which they were incurred. During 1972, this practice was changed whereby such outlays were capitalized. During 1973, the Company reverted to the pre-1972 practice. During 1974, the pre-1972 practice was adopted retroactively, and the accounts have been restated accordingly thus providing consistency of treatment and presentation.
- (iii) In 1973, a subsidiary company wrote down the appraised value of its blueprints because Management indicated its intention to adopt the practice of writing off blueprint costs in the years in which they were incurred. The result of the 1973 change in policy was a charge to deficit of \$50,000. In 1974, to be consistent with the matters mentioned in Note (ii), Management adopted the practice retroactively of expensing blueprints and the accounts were restated accordingly. This results in the reduction of the equity of a subsidiary at the date of acquisition by \$50,000 and a commensurate increase in the excess of cost of the investments in subsidiaries over net assets at the dates of acquisition, thus raising that amount from \$995,000 to \$1,045,000.
- (iv) See Note 4.

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended October 31, 1974 (\$ Thousands)

	<u>1974</u>	<u>1973</u> (Restated)
FUNDS WERE PROVIDED BY:		
Net income (loss)	\$ 407	\$ (409)
Add amounts not requiring an outlay of working capital		
— Depreciation	159	127
— Deferred taxes	19	(9)
	<u>\$ 585</u>	<u>\$ (291)</u>
Long-term borrowings, net of repayments	137	
Shares issued — for cash	150	
— for discharge of liabilities		10
	<u>\$ 872</u>	<u>\$ (281)</u>
FUNDS WERE USED FOR:		
Purchase of plant and equipment	271	195
Reduction of long-term debt		237
Other	5	2
	<u>\$ 276</u>	<u>\$ 434</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 596</u>	<u>\$ (715)</u>
WORKING CAPITAL (DEFICIENCY) END OF YEAR	<u>\$ 413</u>	<u>\$ (183)</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at October 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of Renn Industries Inc. and Subsidiary Companies. All intercompany transactions and accounts have been eliminated on consolidation.

b) Inventories

Inventories are costed at the lower of first-in, first-out and net realizable value. Incomplete construction contracts are accounted for on the completed contract method (changed from 1973 — see Note 2).

c) Depreciation

Depreciation is provided on the diminishing balance method using estimated useful lives (changed from 1973 — see Note 2). The cost and related depreciation of equipment retired or otherwise disposed of in the normal course of business is removed from the accounts. Maintenance and repairs are charged to income as incurred and major renewals and improvements are capitalized.

d) Income Taxes

In calculating the provision for income taxes in each year's Statement of Operations, all income and expense transactions of each year are taken into consideration, regardless of the years in which the transactions are reported in income tax returns. However, the income taxes in individual companies have been reduced by the carry-forward of losses from prior periods. Note 9 describes the current year's income tax benefits derived from carrying forward prior years' losses.

Deferred taxes arise from claiming more depreciation for tax purposes than that which is charged in the accounts.

2. CHANGES IN ACCOUNTING POLICIES

a) Incomplete Construction Contracts

In prior years, the "percentage completion method" was used in determining the portion of profits or losses to be taken into income from incomplete construction contracts. For its successful application, this method relies upon accurate estimates, disciplined accumulation of costs relative to estimates, billings that correlate to the percentage of the contract completed and costs incurred, and careful estimates to complete.

At October 31, 1974, the "completed contract method" was used to account for incomplete contracts. This policy requires that billings and related costs on construction contracts not be taken into income until the contracts are complete. In effect, incomplete construction contracts are considered as work-in-progress until all customer obligations (other than warranty) have been fulfilled.

Management believes this policy is more conservative and more appropriate to the Subsidiary Companies' business activities.

If the policy had not been changed, operating results for 1974 would have increased by a nominal amount.

b) Depreciation

In prior years, some Subsidiaries used the straight-line depreciation method while others used the diminishing balance method.

In 1974, all Subsidiaries used the diminishing balance method. If the former method had been continued, operating results would have been increased and accumulated depreciation would have decreased by \$30,430.

c) Deferred Charges

In prior years, the finance charges on equipment finance contracts were reported as deferred charges. In 1974, these finance charges are deducted from the amounts owing on the finance contracts.

d) Minority Interest

In prior years, a minority interest in a Subsidiary Company was disclosed in a separate balance sheet caption. In the 1974 statements, the amount is included in accounts payable and accrued liabilities (Note 7).

e) Reclassifications

Reclassifications were made to 1973 and 1972 figures to conform with the 1974 presentation.

3. RESTATEMENT OF STATEMENTS PREVIOUSLY REPORTED

The financial statements previously reported for 1972 and 1973 have been restated to:

- a) Accrue for all the expected losses on the 1973 incomplete feed mill construction contracts,
- b) Accrue for prior years' sales tax adjustments and assessments identified in 1974,
- c) Reflect changes in share capital as a result of the financial reorganization as an industrial company, and
- d) Retroactively adjust for certain 1972 and prior items written off in 1973.

4. **FINANCIAL REORGANIZATION AS AN INDUSTRIAL CORPORATION**

In 1971, the Company was reorganized as an industrial corporation, retaining only a nominal continuing interest in mining.

In January, 1974, the interest in mining was terminated and pursuant to that decision, the Company made the following amendments to its share capital in 1974:

- 750,000 escrowed shares which were originally issued to purchase the mining claims were coincidentally surrendered for cancellation.
- The maximum issue price of \$5.00 per share was deleted.
- The contributed surplus was transferred to share capital.
- The total amount of deficit relating to mining operations was deducted from the share capital of the Company because Management believes this treatment portrays more realistically the capitalization of the Company relative to its industrial operations.

During 1974, the Company's remaining mining claims were abandoned. The decision to terminate the mining interest was made prior to issuance of the 1973 financial statements, and as a consequence, those statements reported the intention to cancel the escrowed shares and also reported the abandonment of the claims as a 1973 expense.

The effect of this reorganization is shown on the Consolidated Statement of Shareholders' Equity.

5. **NON-CONTINUING OPERATIONS (\$ Thousands)**

	1974	1973 (Restated)	1972
Losses On Operations Discontinued			
a) Agratec Manufacturing Division			
Loss on disposal	\$	\$ (73)	\$
b) Feed Mill Construction Division			
Contract revenue	\$ 78	\$ 576	
Contract costs, 1973 (restated) includes an accrual for all expected losses on 1973 contracts amounting to \$444,398	(78)	(989)	
Operating expenses		(55)	
Operating loss		\$ (468)	\$
Losses On Operation To Be Discontinued			
c) B.R. Steel Fabricators Ltd.			
Contract revenue	\$ 760	\$ 571	\$ 706
Contract costs	(725)	(462)	(562)
Operating expenses	(74)	(96)	(101)
Interest	(38)	(16)	(9)
Provision for loss on discontinuance	(73)		
Operating income (loss and provision for loss on discontinuance) ..	\$ (150)	\$ (3)	\$ 34
Total income (loss)	\$ (150)	\$ (544)	\$ 34

EXPLANATORY COMMENTS

a) **Agratec Manufacturing Division**

In early 1973, the Company sold the Agratec manufacturing aids and materials it had acquired late in 1972. The sale was made in order to curtail an excessive drain on the cash resources of the Company at that time.

b) **Feed Mill Construction Division**

In March 1974, Management determined that the Feed Mill Construction Division was making no contribution to profits, and hence it should be discontinued.

In the ensuing months, as a detailed investigation of this Division unfolded, Management determined that the financial impact was substantially worse than originally estimated. The expected losses on these contracts are estimated to be about \$444,398, consisting primarily of overruns on materials, labour and other costs involved in fulfilling contractual obligations to the feed mill customers. These estimates are based upon current evaluations of work performed to date and the costs of work yet to be done.

The financial statements for the year ended October 31, 1973 have been restated to include the feed mill losses identified in 1974.

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c) Provision for Abandonment of B.R. Steel Fabricators' Activities

B.R. Steel Fabricators is a specialty, light structural steel job shop producing essentially one-off type items for such purposes as materials handling and storage facilities. It is generating no return on its investment, chiefly because it is poorly equipped in terms of machinery and its production space is seriously limited. Further, it is hampered by the unpredictable nature and flow of work, a not untypical situation in this type of business. For these and other reasons it cannot compete favourably.

Management decided that B.R. Steel will have to abandon its job shop activities in 1975, and hence a provision of \$73,000 for shutting down B.R. Steel's operations has been made in 1974.

6. PROPERTY, PLANT AND EQUIPMENT, AT COST LESS ACCUMULATED DEPRECIATION (\$ Thousands)

	<u>1974</u>			<u>1973</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
Land	\$ 155	\$	\$ 155	\$ 155
Buildings	594	100	494	521
Machinery and equipment	531	152	379	422
Mobile equipment	375	135	240	50
Other	89	38	51	59
	<u>\$1,744</u>	<u>\$ 425</u>	<u>\$1,319</u>	<u>\$1,207</u>

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES (\$ Thousands)

	<u>1974</u>	<u>1973</u>
Accounts payable and accrued charges	\$1,759	\$1,679
Payable to officers and directors	57	7
Agreements payable (i)	75	150
Minority interest (ii)	16	16
	<u>\$1,907</u>	<u>\$1,852</u>

(i) Agreements Payable

The agreements payable represent the balance due in respect of the acquisition of the two Renn Sales Subsidiary Companies. In case of default, the vendors may repossess the shares of the Subsidiaries upon refund of a portion of the purchase price already paid. These agreements have been postponed in favour of the debenture payable.

(ii) Minority Interest

The minority interest consists of all the redeemable preferred shares of a Subsidiary.

8. DEBENTURE PAYABLE

The debenture is payable on demand and is secured by a floating charge on all assets and undertakings of the Company and its Subsidiaries and a fixed charge on receivables and pledge of inventories. Interest is payable at the Canadian prime bank rate plus 8% with a stated minimum of 12%. The Company and its Subsidiaries have agreed that while the agreement is in force, they will not, without the prior consent of the creditor:

- a) Declare or pay any dividends;
- b) Make capital expenditures in each Subsidiary in excess of \$25,000 in any one fiscal period;
- c) Become guarantor of any other obligation;
- d) Lend any monies or acquire shares in any other corporation.

The Company has negotiated a long-term loan of \$350,000 at 13½% with the Industrial Development Bank. The loan was approved on June 13, 1974, but the funds were not made available until November 10, 1974. They were applied immediately to the debenture payable. The debenture payable has been reduced in these statements and the IDB loan has been reported as long-term debt.

9. INCOME TAXES

Under Canadian income tax law, each Company is taxed as an individual entity. The high income taxes in 1974 and 1972 result from the inability to offset profits in some of the Companies, for income tax purposes, against the losses of others. Similarly, in 1973, the relatively small recovery against the loss of \$415,000, is the result of suffering a large portion of the loss in a Subsidiary Company that was not taxable in the previous year, and thus it could not obtain a loss carry-back recovery. At October 31, 1974, losses not yet claimed for tax purposes amount to about \$325,000 of which only a small portion will lapse if not claimed against taxable income in the next three years.

* FORMERLY FOUR SEASONS MANUFACTURING LTD.

RENN INDUSTRIES INC.

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10. LONG-TERM DEBT (\$ Thousands)

	<u>1974</u>	<u>1973</u>
Debentures payable — repaid in 1974	\$	\$ 597
Debenture — Alberta Treasury Branch	343	398
Repayable at \$8,190 per month, principal and interest at prime plus 3%, carries a first charge on fixed assets of Renn-Cupit Mfg. Ltd. (carrying value \$768,004) and other charges.		
Debenture — Industrial Development Bank	350	
Repayable by 20 monthly instalments of \$1,000 followed by 30 monthly instalments of \$3,000 and the balance at \$4,000 per month, and interest at 13½%, carries a second charge on fixed assets of Renn-Cupit Mfg. Ltd. and all other fixed assets not otherwise pledged, plus other charges.		
Mortgage payable — National Trust Company	97	99
Repayable at \$952 per month, principal and interest at 10%, carries a first charge on land and buildings of Renn Sales (Edmonton) Ltd. (carrying value of \$153,007).		
Finance contracts and lease purchase agreements	221	117
Repayable at approximately \$5,300 per month in 1974 and \$4,000 per month in 1973, principal and interest, carries charges against specific equipment.		
	<u>\$ 1,011</u>	<u>\$ 1,211</u>
Less current portion, included in current liabilities	153	490
	<u>\$ 858</u>	<u>\$ 721</u>

The estimated principal retirements falling due within the next five years are as follows: (\$ Thousands)

1976	\$162
1977	165
1978	151
1979	97
1980 and after	283
	<u>\$858</u>

11. CONTINGENT LIABILITIES — ENDORSED CUSTOMERS' NOTES

A Subsidiary Company is contingently liable as endorser of customers' notes in the approximate amount of \$95,000. This comprises relatively small individual amounts, all of which were in good standing at October 31, 1974.

12. STATUTORY INFORMATION

a) Remuneration to Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company and its Subsidiaries to its directors, senior officers and five highest paid employees amounted to \$319,406 in 1974. (\$202,656 is the remuneration of directors, officers and employees still associated with the Company.)

b) Categories of Company Sales

The Company's sales from continuing operations are split into the following major categories:

Manufacturing and servicing	47%
Wholesaling	53%

c) Change of Name

At a special meeting on September 23, 1974, the shareholders approved a change of name from Four Seasons Manufacturing Ltd. to Renn Industries Inc.

RENN INDUSTRIES INC.*

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13. RESTATED FINANCIAL STATEMENTS

As indicated in Note 3, the financial statements previously reported for 1972 and 1973 have been restated. The principal criteria for this retroactive decision by Management are:

- a) To treat similar items in a similar way, thus facilitating analyses on a consistent basis.
- b) To present only those financial results that relate to Renn Industries Inc. since its reorganization as an industrial company, thereby precluding distortions in the presentation of previous and ongoing industrial results. All transactions relating to mining have been offset against share capital at September 1, 1971.
- c) To report specific events consistently in their proper time frames, and thus comparisons of information between periods, which might otherwise be misleading, are avoided. This treatment is responsive to the recommendations of the Canadian Institute of Chartered Accountants.
- d) To disclose all material losses, recorded or capable of being anticipated, at the earliest opportunity, and take only that revenue that is earned into income in the year to which it relates. This ensures timeliness of disclosure and a conservative approach to reporting financial results.

The 1972 and 1973 financial statements in their original form only were reported upon by auditors other than Arthur Andersen & Co. The items restated by Management are shown in the Restatement of Previously Reported Income (Loss) and Deficit, and the Consolidated Statement of Shareholders' Equity.

* FORMERLY FOUR SEASONS MANUFACTURING LTD.

AUDITORS' REPORT

To the Shareholders of
Renn Industries Inc.:

We have examined the consolidated balance sheet of Renn Industries Inc. (a British Columbia company) and Subsidiary Companies as at October 31, 1974, and the related statements of operations, shareholders' equity, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1974, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, to the method of calculating depreciation as indicated in Note 2, were applied on a basis consistent with that of the preceding year. In our opinion, due provision has been made for minority interests.

February 17, 1975.
Calgary, Alberta.

ARTHUR ANDERSEN & CO.
Chartered Accountants

